

City of Trenton, Michigan

**Financial Report
with Supplemental Information
June 30, 2008**

City of Trenton, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Trenton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Trenton, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule of the General Fund, and the pension system schedule of funding progress and employer contributions identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and
Members of the City Council
City of Trenton, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Trenton, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City of Trenton, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

November 25, 2008

City of Trenton, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Trenton, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- The City exceeded overall budgeted revenues by \$613,067. Revenues included a one-time financing source of \$353,850 related to the issuance of debt to purchase trash carts that was not budgeted. Revenues for building permits exceeded budgeted by \$161,699 due to two major developments. Property taxes are static, falling short of budget by \$29,427.
- Total net assets related to the City's governmental activities increased by approximately \$83,000. Total net assets related to business-type activities increased by approximately \$1,711,000.
- Residential building activity has slowed significantly; however, two major employers are expanding their facilities. First is the Chrysler Group, which is constructing the new \$99,000,000 Phoenix engine plant. Secondly, Oakwood Southshore Hospital has completed \$60,000,000 in facility upgrades.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view. They tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2008 and 2007 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current assets	\$ 15,103	\$ 18,150	\$ 4,902	\$ 3,237	\$ 20,005	\$ 21,387
Noncurrent assets	20,781	17,782	64,450	68,322	85,231	86,104
Total assets	35,884	35,932	69,352	71,559	105,236	107,491
Liabilities						
Current liabilities	2,091	3,350	969	1,017	3,060	4,367
Long-term liabilities	6,462	5,334	43,080	46,950	49,542	52,284
Total liabilities	8,553	8,684	44,049	47,967	52,602	56,651
Net Assets						
Invested in capital assets - Net of related debt	16,872	14,861	22,153	21,098	39,025	35,959
Restricted	936	1,063	599	-	1,535	1,063
Unrestricted	9,523	11,324	2,551	2,494	12,074	13,818
Total net assets	<u>\$ 27,331</u>	<u>\$ 27,248</u>	<u>\$ 25,303</u>	<u>\$ 23,592</u>	<u>\$ 52,634</u>	<u>\$ 50,840</u>

The City's combined net assets increased a modest 3.5 percent or \$1,794,000 from a year ago, increasing from \$50,840,000 to \$52,634,000. Governmental activities increased 0.3 percent while business-type activities increased 7.25 percent (\$83,000 increase in governmental activities and \$1,711,000 increase in business-type activities).

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - decreased by \$1,801,000 for governmental activities. This represents a decrease of 15.9 percent.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the years ended June 30, 2008 and 2007 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue						
Program revenue:						
Charges for services	\$ 3,349	\$ 2,990	\$ 6,563	\$ 6,318	\$ 9,912	\$ 9,308
Operating grants and contributions	1,221	1,035	-	-	1,221	1,035
Capital grants and contributions	1,388	366	1,245	1,038	2,633	1,404
General revenue:						
Property taxes	15,157	15,241	2,606	2,665	17,763	17,906
State-shared revenue	2,185	2,623	-	-	2,185	2,623
Unrestricted investment earnings	916	1,026	134	131	1,050	1,157
Transfers and other (expense) revenue	(899)	(415)	939	431	40	16
Total revenue	23,317	22,866	11,487	10,583	34,804	33,449
Program Expenses						
General government	4,073	3,654	-	-	4,073	3,654
Public safety	9,737	9,986	-	-	9,737	9,986
Public works	6,281	5,414	-	-	6,281	5,414
Community and economic development	590	386	-	-	590	386
Recreation and culture	1,758	1,341	-	-	1,758	1,341
Special projects	709	460	-	-	709	460
Interest on long-term debt	86	106	-	-	86	106
Enterprise	-	-	9,776	10,477	9,776	10,477
Total program expenses	23,234	21,347	9,776	10,477	33,010	31,824
Change in Net Assets	\$ 83	\$ 1,519	\$ 1,711	\$ 106	\$ 1,794	\$ 1,625

Governmental Activities

The City's governmental revenue increased by approximately \$451,000 in the current year. The increase was primarily due to increases in federal forfeiture grants and charges for services of \$1,022 and \$359, respectively. The increase in charges for services was due to an increase in building permits from the construction of an industrial facility and the expansion of the local hospital. These increases were offset by additional transfers made to the Recreation Fund and decreases in other revenue categories. In addition, property taxes decreased because several major industrial property owners were granted a reduction in prior years' taxable valued resulting in refunds paid by the City of \$121,000.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and Kennedy Recreation Center. Water, provided to residential, commercial, and industrial users, is purchased from the Detroit water system. Sewage treatment is provided through a city-owned and operated sewage treatment plant.

The combined water and sewer rate was increased \$.65 or 10.7 percent from \$6.04 to \$6.69 for fiscal year 2007-2008. Water sales were down 7 percent from the previous year. Water loss was held below 14 percent, which is considered reasonable in an aging system.

The budgeted rate included \$1.21 for capital expenditures. The revenues for capital are reported in nonoperating revenues, rather than charges for services. These revenues were used for an \$800,000 upgrade to the sewage treatment plant.

The City's Funds

An analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The City's major funds for 2007-2008 include the General Fund, Kennedy Recreation Center Fund, and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant expenditures are for public safety, which incurred expenses of \$8,430,216 or 39.5 percent of General Fund expenses in fiscal year 2007-2008. Public works would be next at \$3,525,862 or 16.5 percent of General Fund expenses. These services are almost solely supported by property taxes.

The actual ordinary operating costs of the City's General Fund, excluding other, debt service, and transfers, decreased from the previous year by \$143,000. A recreational activity, outdoor pool, was added this year to the City's General Fund. This activity had previously been accounting for in the Recreation Enterprise Fund.

General Fund Budgetary Highlights

- Over the course of the year, the City amended the General Fund budget to take into account events during the year. These amendments are normally between various cost centers and do not affect the total General Fund budget. A major amendment was recorded to transfer the operations of the city pool from the Recreation Fund to the General Fund. This increased budgeted revenues by \$116,000 and expenditures by \$395,809. The most significant increase in revenues was building permits, which exceeded budgeted revenue by \$161,700.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

- In contrast, due to the continuing reduction of the City's workforce through attrition and careful spending, cost containments were realized by most departments. The budgeted expenditures of \$19,599,486 were overspent by \$2,495,431 due primarily to two unbudgeted actions taken by the City Council. First, a \$2,000,000 contribution was approved from the General Fund fund balance to the City's other postemployment benefit trust fund for future retiree healthcare costs. Secondly, the budgeted transfer from the General Fund to the Recreation Fund was increased by \$568,601 to eliminate a deficit in this fund. Overall, actual expenditures exceeded budget by \$1,882,364.

There is interest by a group to reopen a steel mill located in the city. In addition, a site of a closed hospital on the river is being considered for residential development.

The City continues to encourage new development, search for alternative sources of new revenue, as well as cost reductions to balance future budgets.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the controller's office.

City of Trenton, Michigan

Statement of Net Assets June 30, 2008

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 13,079,699	\$ 1,302,031	\$ 14,381,730	\$ 720,934
Receivables:				
Taxes	140,644	222,874	363,518	-
Customers	-	1,372,785	1,372,785	-
Other	477,475	17,267	494,742	400,000
Due from other governmental units	875,635	-	875,635	-
Inventories	230,203	249,052	479,255	-
Long-term advance and other assets	300,011	-	300,011	-
Restricted assets (Note 4)	-	1,738,379	1,738,379	-
Capital assets - Net (Note 5)	20,780,717	64,449,808	85,230,525	2,960,793
Total assets	35,884,384	69,352,196	105,236,580	4,081,727
Liabilities				
Accounts payable	505,274	534,688	1,039,962	25,204
Accrued and other liabilities	1,063,763	399,775	1,463,538	-
Deferred revenue (Note 8)	521,911	-	521,911	400,000
Current liabilities payable from restricted assets (Note 4)	-	34,310	34,310	-
Noncurrent liabilities (Note 7):				
Due within one year	1,793,096	2,632,201	4,425,297	105,000
Due in more than one year	4,668,730	40,447,667	45,116,397	2,060,000
Total liabilities	8,552,774	44,048,641	52,601,415	2,590,204
Net Assets				
Invested in capital assets - Net of related debt	16,872,786	22,153,490	39,026,276	860,793
Restricted:				
Major and local streets	314,322	-	314,322	-
Community development block grant	31,090	-	31,090	-
Grant	54,143	-	54,143	-
Library	421,393	-	421,393	-
Refuse	114,899	-	114,899	-
Debt	-	598,916	598,916	-
Unrestricted	9,522,977	2,551,149	12,074,126	630,730
Total net assets	\$ 27,331,610	\$ 25,303,555	\$ 52,635,165	\$ 1,491,523

City of Trenton, Michigan

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
			Capital Grants and Contributions
Functions/Programs			
Primary government:			
Governmental activities:			
General government	\$ 4,073,380	\$ 1,147,534	\$ -
Public safety	9,737,082	1,112,744	1,300
Public works	6,280,694	135,679	989,380
Community and economic development	590,048	-	230,160
Recreation and culture	1,757,672	601,339	-
Special projects	708,566	351,379	-
Interest on long-term debt	85,968	-	-
Total governmental activities	23,233,410	3,348,675	1,220,840
Business-type activities:			
Water and sewer	7,719,738	5,271,570	-
Recreation	2,056,501	1,291,132	-
Total business-type activities	9,776,239	6,562,702	-
Total primary government	<u>\$ 33,009,649</u>	<u>\$ 9,911,377</u>	<u>\$ 1,220,840</u>
Component units:			
Downtown Development Authority	\$ 545,685	\$ -	\$ -
Brownfield Redevelopment Authority	369,417	-	375,490
Total component units	<u>\$ 915,102</u>	<u>\$ -</u>	<u>\$ 375,490</u>
General revenues:			
Property taxes			
State-shared revenues			
Unrestricted investment earnings			
Miscellaneous income			
Transfers - Net (Note 6)			
Total general revenues and transfers			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (2,728,790)	\$ -	\$ (2,728,790)	\$ -
(7,480,796)	-	(7,480,796)	-
(5,155,635)	-	(5,155,635)	-
(359,888)	-	(359,888)	-
(1,107,959)	-	(1,107,959)	-
(357,187)	-	(357,187)	-
(85,968)	-	(85,968)	-
(17,276,223)	-	(17,276,223)	-
-	(1,223,038)	(1,223,038)	-
-	(744,806)	(744,806)	-
-	(1,967,844)	(1,967,844)	-
(17,276,223)	(1,967,844)	(19,244,067)	-
-	-	-	(545,685)
-	-	-	6,073
-	-	-	(539,612)
15,157,293	2,606,797	17,764,090	964,837
2,184,967	-	2,184,967	-
916,460	133,713	1,050,173	24,051
39,431	-	39,431	11,896
(938,790)	938,790	-	-
17,359,361	3,679,300	21,038,661	1,000,784
83,138	1,711,456	1,794,594	461,172
27,248,472	23,592,099	50,840,571	1,030,351
\$ 27,331,610	\$ 25,303,555	\$ 52,635,165	\$ 1,491,523

City of Trenton, Michigan

Governmental Funds Balance Sheet June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 6,676,171	\$ 4,038,830	\$ 10,715,001
Receivables:			
Taxes	134,131	6,513	140,644
Other	240,158	237,317	477,475
Due from other governmental units	287,231	162,092	449,323
Inventories	88,350	-	88,350
Long-term advance	65,000	-	65,000
Total assets	<u>\$ 7,491,041</u>	<u>\$ 4,444,752</u>	<u>\$ 11,935,793</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 196,549	\$ 267,088	\$ 463,637
Accrued and other liabilities	441,894	73,276	515,170
Deferred revenue (Note 8)	-	521,911	521,911
Total liabilities	638,443	862,275	1,500,718
Fund Balances			
Reserved for:			
Long-term advance	65,000	-	65,000
Inventories	88,350	-	88,350
Refuse	114,899	-	114,899
Unreserved:			
General Fund (Note 1)	6,584,349	-	6,584,349
Special Revenue Funds	-	2,725,085	2,725,085
Capital Projects Fund	-	857,392	857,392
Total fund balances	<u>6,852,598</u>	<u>3,582,477</u>	<u>10,435,075</u>
Total liabilities and fund balances	<u>\$ 7,491,041</u>	<u>\$ 4,444,752</u>	<u>\$ 11,935,793</u>
Fund Balance - Total Governmental Funds			\$ 10,435,075
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			18,822,554
State-shared revenue receivables not collected within 60 days are not reported in the funds			426,312
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(4,107,931)
Compensated absences and uninsured claims are included as a liability in governmental activities			(2,301,392)
Internal Service Funds are included as part of governmental activities			4,056,992
Net Assets of Governmental Activities			<u>\$ 27,331,610</u>

City of Trenton, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 14,313,664	\$ 843,629	\$ 15,157,293
Licenses and permits	717,374	-	717,374
Federal grants	-	1,566,639	1,566,639
State sources	2,154,388	1,077,498	3,231,886
Charges for services	1,003,016	-	1,003,016
Fines and forfeitures	438,411	-	438,411
Interest income	760,580	165,523	926,103
Other	396,270	731,956	1,128,226
Total revenue	19,783,703	4,385,245	24,168,948
Expenditures			
Current:			
General government	3,372,105	-	3,372,105
Public safety	8,430,216	-	8,430,216
Public works	3,525,862	1,835,571	5,361,433
Recreation and culture	1,067,493	421,667	1,489,160
Other	4,850,386	2,454,322	7,304,708
Debt service	59,063	509,851	568,914
Total expenditures	21,305,125	5,221,411	26,526,536
Excess of Expenditures Over Revenue	(1,521,422)	(836,166)	(2,357,588)
Other Financing Sources (Uses)			
Transfers in (Note 6)	75,000	830,000	905,000
Transfers out (Note 6)	(789,792)	(830,000)	(1,619,792)
Issuance of debt	353,850	-	353,850
Total other financing uses	(360,942)	-	(360,942)
Net Change in Fund Balances	(1,882,364)	(836,166)	(2,718,530)
Fund Balances - Beginning of year	8,734,962	4,418,643	13,153,605
Fund Balances - End of year	<u>\$ 6,852,598</u>	<u>\$ 3,582,477</u>	<u>\$ 10,435,075</u>

City of Trenton, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (2,718,530)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs along with donated capital assets are allocated over their estimated useful lives as depreciation:	
Capital outlay	2,896,268
Depreciation	(940,845)
Revenues are not reported in the governmental funds in the current year because they were not available to pay for current year expenditures	30,579
Capital assets contributed from component units are recorded as revenue on the statement of activities	11,896
Issuance of long-term debt is an other financing source in the governmental fund, but not the statement of activities (where it increases long-term debt)	(353,850)
Repayment of bond and other debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	732,305
Decrease in accumulated severance pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	51,160
Net transfer of assets and long-term debt from the Enterprise/Recreation Fund to the General Fund	(223,998)
Internal Service Funds are also included as governmental activities	598,153
Change in Net Assets of Governmental Activities	<u>\$ 83,138</u>

City of Trenton, Michigan

Proprietary Funds Statement of Net Assets June 30, 2008

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,297,585	\$ 4,446	\$ 1,302,031	\$ 2,364,698
Receivables:				
Taxes	222,874	-	222,874	-
Customers	1,295,517	77,268	1,372,785	-
Prepaid costs and other assets	17,267	-	17,267	235,011
Inventories	247,930	1,122	249,052	141,853
Total current assets	3,081,173	82,836	3,164,009	2,741,562
Noncurrent assets:				
Restricted assets (Note 4)	1,738,379	-	1,738,379	-
Capital assets (Note 5)	56,949,261	7,500,547	64,449,808	1,958,163
Total noncurrent assets	58,687,640	7,500,547	66,188,187	1,958,163
Total assets	61,768,813	7,583,383	69,352,196	4,699,725
Liabilities				
Current liabilities:				
Accounts payable	510,675	24,013	534,688	41,637
Accrued and other liabilities	63,572	336,203	399,775	548,593
Current liabilities payable from restricted assets (Note 4)	34,310	-	34,310	-
Current portion of long-term debt (Note 7)	2,289,977	342,224	2,632,201	16,819
Total current liabilities	2,898,534	702,440	3,600,974	607,049
Noncurrent liabilities:				
Provision for compensated absences (Note 7)	153,094	9,802	162,896	35,684
Long-term debt - Net of current portion (Note 7)	33,814,522	6,470,249	40,284,771	-
Total noncurrent liabilities	33,967,616	6,480,051	40,447,667	35,684
Total liabilities	36,866,150	7,182,491	44,048,641	642,733
Net Assets				
Investment in capital assets - Net of related debt	21,459,941	693,549	22,153,490	1,958,163
Restricted - Debt	598,916	-	598,916	-
Unrestricted (deficit)	2,843,806	(292,657)	2,551,149	2,098,829
Total net assets	<u>\$ 24,902,663</u>	<u>\$ 400,892</u>	<u>\$ 25,303,555</u>	<u>\$ 4,056,992</u>

City of Trenton, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
Operating Revenue				
Sale of water	\$ 1,942,861	\$ -	\$ 1,942,861	\$ -
Sewage disposal charges	2,962,243	-	2,962,243	-
Charges for services	-	1,291,132	1,291,132	6,109,804
Other charges	366,466	-	366,466	95,558
Total operating revenue	5,271,570	1,291,132	6,562,702	6,205,362
Operating Expenses				
Cost of water	1,189,974	-	1,189,974	-
Cost of sewage disposal	1,250,383	-	1,250,383	-
Transmission and distribution	801,072	-	801,072	-
Cost of recreation activity	-	1,059,264	1,059,264	-
Depreciation	1,753,896	638,753	2,392,649	317,982
General and administrative	1,790,819	-	1,790,819	1,018,736
Insurance, claims, and other	-	-	-	4,483,541
Total operating expenses	6,786,144	1,698,017	8,484,161	5,820,259
Operating (Loss) Income	(1,514,574)	(406,885)	(1,921,459)	385,103
Nonoperating Revenue (Expenses)				
Property taxes	2,606,797	-	2,606,797	-
Interest (expense) income - Net	(799,881)	(358,484)	(1,158,365)	102,286
Customer capital charges	950,130	-	950,130	-
Contribution from Downtown Development Authority (DDA)	275,000	-	275,000	-
Loss on disposal of capital assets	-	-	-	(24,964)
Total nonoperating revenue (expenses)	3,032,046	(358,484)	2,673,562	77,322
Income (Loss) - Before capital contributions and transfers	1,517,472	(765,369)	752,103	462,425
Capital Contributions	-	20,563	20,563	135,728
Operating Transfers In (Note 6)	-	1,013,790	1,013,790	-
Operating Transfers Out (Note 6)	(75,000)	-	(75,000)	-
Change in Net Assets	1,442,472	268,984	1,711,456	598,153
Net Assets - Beginning of year	23,460,191	131,908	23,592,099	3,458,839
Net Assets - End of year	<u>\$ 24,902,663</u>	<u>\$ 400,892</u>	<u>\$ 25,303,555</u>	<u>\$ 4,056,992</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Trenton, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 5,368,498	\$ 1,319,412	\$ 6,687,910	\$ -
Charges for services	-	-	-	6,201,979
Payments to suppliers	(3,450,943)	(1,005,433)	(4,456,376)	(634,652)
Claims paid	-	-	-	(4,458,668)
Payments to employees	(1,296,496)	(401,426)	(1,697,922)	(414,908)
Other receipts	-	-	-	95,558
Net cash provided by (used in) operating activities	621,059	(87,447)	533,612	789,309
Cash Flows from Investing Activities - Interest received on investments and other assets	133,713	-	133,713	102,286
Cash Flows from Noncapital Financing Activities - Operating transfers (out) in	(75,000)	789,792	714,792	-
Cash Flows from Capital and Related Financing Activities				
Interest paid on long-term debt	(933,594)	(340,234)	(1,273,828)	-
Principal payments on long-term debt	(2,105,749)	(351,000)	(2,456,749)	-
Proceeds from sale of fixed assets	-	-	-	42,543
Proceeds from issuance of new debt	153,892	-	153,892	-
Purchases of capital assets	(911,790)	(11,111)	(922,901)	(339,702)
Collection of capital charges and DDA contribution	1,225,130	-	1,225,130	-
Property taxes	2,606,797	-	2,606,797	-
Net cash provided by (used in) capital and related financing activities	34,686	(702,345)	(667,659)	(297,159)
Net Change in Cash and Cash Equivalents	714,458	-	714,458	594,436
Cash and Cash Equivalents - Beginning of year	2,321,496	4,446	2,325,942	1,770,262
Cash and Cash Equivalents - End of year	<u>\$ 3,035,954</u>	<u>\$ 4,446</u>	<u>\$ 3,040,400</u>	<u>\$ 2,364,698</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 1,297,585	\$ 4,446	\$ 1,302,031	\$ 2,364,698
Restricted cash	1,738,379	-	1,738,379	-
Total	<u>\$ 3,035,964</u>	<u>\$ 4,446</u>	<u>\$ 3,040,410</u>	<u>\$ 2,364,698</u>
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities				
Operating (loss) income	\$ (1,514,574)	\$ (406,885)	\$ (1,921,459)	\$ 385,103
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation	1,753,896	638,753	2,392,649	317,982
Loss on disposal of fixed assets	29,164	-	29,164	-
Changes in assets and liabilities:				
Receivables	96,928	28,280	125,208	-
Prepaid costs and other assets	3,527	-	3,527	52,309
Inventories	(21,726)	2,142	(19,584)	-
Accounts payable	290,968	(16,907)	274,061	7,337
Accrued and other liabilities	(17,124)	(332,830)	(349,954)	26,578
Net cash provided by (used in) operating activities	<u>\$ 621,059</u>	<u>\$ (87,447)</u>	<u>\$ 533,612</u>	<u>\$ 789,309</u>

Noncash Investing, Capital, and Financing Activities - The Enterprise - Recreation Fund transferred certain assets totaling \$1,334,064 and related debt of \$1,558,062 to the General Fund. In the Internal Service Funds, other funds of the City purchased vehicles and equipment totaling \$135,728 and donated them to the Motor Vehicle Pool Fund.

City of Trenton, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2008

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 1,566,354	\$ 141,958
Investments (Note 3):		
U.S. government and agency securities	4,985,838	-
Corporate stocks	16,610,144	-
Corporate bonds and asset-backed securities	6,388,114	-
Investment pools	30,733,847	-
Real estate (REIT) fund interest	2,807,086	-
Contributions receivable	83,983	-
Accrued interest	149,185	-
Total assets	63,324,551	<u><u>\$ 141,958</u></u>
Liabilities		
Accrued and other liabilities	-	\$ 10,508
Cash bonds and deposits	-	131,450
Total liabilities	-	<u><u>\$ 141,958</u></u>
Net Assets - Held in trust for pension and retiree health care	<u><u>\$ 63,324,551</u></u>	

City of Trenton, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2008

Additions

Investment income:	
Interest and dividends	\$ 1,761,126
Net decrease in fair value of investments	(1,972,174)
Less investment expenses	<u>(222,762)</u>
Net investment loss	(433,810)
Contributions:	
Employer	2,838,615
Employee	<u>197,059</u>
Total contributions	<u>3,035,674</u>
Total additions	2,601,864

Deductions

Benefit payments	3,272,147
Administrative expenses	<u>23,933</u>
Total deductions	<u>3,296,080</u>

Net Decrease (694,216)

Net Assets Held in Trust for Pension and Retiree Health Care

Beginning of year	<u>64,018,767</u>
End of year	<u><u>\$ 63,324,551</u></u>

City of Trenton, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2008

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Assets			
Cash and investments (Note 3)	\$ 673,508	\$ 47,426	\$ 720,934
Receivables	-	400,000	400,000
Capital assets - Net (Note 5)	<u>2,960,793</u>	<u>-</u>	<u>2,960,793</u>
Total assets	3,634,301	447,426	4,081,727
Liabilities			
Accounts payable	24,360	844	25,204
Deferred revenue	-	400,000	400,000
Noncurrent liabilities (Note 7):			
Due within one year	75,000	30,000	105,000
Due in more than one year	<u>2,025,000</u>	<u>35,000</u>	<u>2,060,000</u>
Total liabilities	<u>2,124,360</u>	<u>465,844</u>	<u>2,590,204</u>
Net Assets (Deficit)			
Investment in capital assets - Net of related debt	860,793	-	860,793
Unrestricted	<u>649,148</u>	<u>(18,418)</u>	<u>630,730</u>
Total net assets (deficit)	<u>\$ 1,509,941</u>	<u>\$ (18,418)</u>	<u>\$ 1,491,523</u>

City of Trenton, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
Downtown Development Authority:				
Special projects	\$ 449,872	\$ -	\$ -	\$ -
Interest expense	95,813	-	-	-
Brownfield Redevelopment Authority -				
Special projects	369,417	-	375,490	-
Total governmental activities	<u><u>\$ 915,102</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 375,490</u></u>	<u><u>\$ -</u></u>

General revenues:

Property taxes

Interest

Miscellaneous revenue

Total general revenues

Change in Net Assets

Net Assets (Deficit) - Beginning of year

Net Assets (Deficit) - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets (Deficit)		
Downtown Development Authority	Brownfield Redevelopment Authority	Total
\$ (449,872)	\$ -	\$ (449,872)
(95,813)	-	(95,813)
-	6,073	6,073
(545,685)	6,073	(539,612)
957,288	7,549	964,837
22,054	1,997	24,051
11,896	-	11,896
991,238	9,546	1,000,784
445,553	15,619	461,172
1,064,388	(34,037)	1,030,351
\$ 1,509,941	\$ (18,418)	\$ 1,491,523

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Trenton, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

The City of Trenton Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government by blending it with the activities of the Recreation Fund because its primary purpose is to finance and construct the City's public buildings, including the Kennedy Recreation Center.

Discretely Presented Component Units - The following component units are reported within the component unit column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. The Downtown Development Authority's governing body consists of the mayor and 11 individuals appointed by the mayor, subject to approval by the City Council.

The Brownfield Redevelopment Authority was created to facilitate the long-term redevelopment and remediation of environmentally contaminated sites within the City. The Brownfield Redevelopment Authority's governing body consists of the mayor and six individuals appointed by the mayor, subject to approval by the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

Major Taxpayers

Approximately 30 percent of property tax revenue is from two companies with properties in the City of Trenton, and approximately 31 percent of the total water, sewer, and industrial charge revenue is from three businesses located in the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the General Fund as a major governmental fund. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution and sewage collection system.
- The Recreation Fund accounts for activities of the recreation center excluding swimming pool operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

- The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. Included in this category are the Motor Vehicle Pool Fund and the Self-insurance Fund.
- The Pension Retirement Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified police and fire employees.
- The Other Employee Benefit Trust Fund accounts for activities and accumulates resources associated with providing postemployment benefits to retirees.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Cash held in trust by the General Cash Fund for other funds is reported in the financial statements as being held by the individual funds.

Investments - Investments are stated at fair value, based on quoted market prices. Investments that do not have an established market are reported at estimated fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 and December 1 on the taxable valuation of property as of the preceding December 31. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 to 30 years
Water and sewer distribution systems	50 to 66 years
Water and sewer treatment facilities	50 years
Buildings and building improvements	15 to 50 years
Machinery, equipment, and furniture	7 to 20 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation, sick, and personal pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

The following is a summary of the unreserved fund balance of the General Fund with management's designations:

Designated:	
Equipment	\$ 1,500,000
Capital projects	1,500,000
Postretirement benefits	1,000,000
Defined benefit pension	655,368
Severance pay	800,000
Deficit elimination of Kennedy Recreation Fund	300,000
Receivables	<u>661,520</u>
Total designated	6,416,888
Undesignated	<u>167,461</u>
Total unreserved	<u>\$ 6,584,349</u>

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budgetary comparison schedule (non-GAAP budgetary basis) for the General Fund is included in the required supplemental information and is presented in greater detail than the accounting used in preparing the adopted budget. The budgets have been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The adopted budget for the nonmajor Special Revenue Funds can be obtained from City Hall.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the City has adopted this accounting treatment. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Excess costs - Beginning of year	\$ (897,865)
Building permit revenue	717,374
Direct costs	<u>(453,394)</u>
Excess costs - End of year	<u>\$ (633,885)</u>

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of budget as follow:

<u>General Fund</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Transfers to other funds	\$ 221,191	\$ 789,792	\$ (568,601)
Other	2,592,842	4,850,386	(2,257,544)

Transfers exceeded budget primarily due to a transfer to the ice rink (Recreation Fund) that was not budgeted. Other expenses exceeded budget primarily due to a contribution of \$2,000,000 to the Retiree Healthcare Trust Fund. The contribution was not budgeted but fund balance was designated in the prior year for this item.

Fund Deficits

The Recreation Fund had a deficit in unrestricted net assets at June 30, 2008 totaling approximately (\$292,000). The deficit will be eliminated through operational improvements at the recreation center and transfers from the General Fund if necessary.

The Brownfield Redevelopment Authority component unit had a deficit at June 30, 2008 totaling approximately (\$18,000). The deficit will be funded primarily by property tax collections or a transfer from another fund at the City.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Police and Fire Retirement System and the Retiree Health Care Trust Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$14,800,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized (approximately \$1,466,000 of the uninsured amount is held in the Firemen and Policemen Retirement System Fund). The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy restricts bond maturities to not exceed 30 years. At year end, the average maturities of investments are as follows

Investment Type *	Fair Value	Investment Maturities		
		Less than 5 Years	Five to 15 Years	Over 15 Years
U.S. Treasury notes*	\$ 808,789	\$ 288,459	\$ 226,253	\$ 294,077
U.S. federal agencies*	4,177,049	464,401	830,602	2,882,046
U.S. federal agencies**	3,044,829	3,044,829	-	-
Corporate bonds and asset-backed securities*	6,388,114	1,832,669	3,698,697	856,748
Total	<u>\$ 14,418,781</u>	<u>\$ 5,630,358</u>	<u>\$ 4,755,552</u>	<u>\$ 4,032,871</u>

* Police and Fire Retirement System Trust Fund assets

** City government-wide assets

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits investments in fixed income securities to bond ratings not less than Baa by Moody's and/or Bbb by Standard & Poor's. Short-term fixed income securities must have a minimum rating of A-1, P-1, or F-1 as defined by Moody's, Standard & Poor's, or Fitch's Rating Services, respectively. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Real estate investments *	\$ 2,807,086	Not rated	
U.S. Treasury notes *	808,789	AAA	Moody's
U.S. federal agencies *	562,904	AAA	Moody's
U.S. federal agencies *	3,614,145	Not rated	
U.S. federal agencies ***	2,270,738	Not rated	
U.S. federal agencies ***	774,091	AAA	Moody's
Corporate bonds and asset-backed securities *	327,601	A1	Moody's
Corporate bonds and asset-backed securities *	371,145	A2	Moody's
Corporate bonds and asset-backed securities *	186,834	A3	Moody's
Corporate bonds and asset-backed securities *	19,063	AA1	Moody's
Corporate bonds and asset-backed securities *	272,427	AA3	Moody's
Corporate bonds and asset-backed securities *	738,269	AAA	Moody's
Corporate bonds and asset-backed securities *	160,463	B2	Moody's
Corporate bonds and asset-backed securities *	582,181	BAA1	Moody's
Corporate bonds and asset-backed securities *	1,284,437	BAA2	Moody's

Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Rating Organization
Corporate bonds and asset-backed securities *	\$ 866,144	BAA3	Moody's
Corporate bonds and asset-backed securities *	623,683	BA2	Moody's
Corporate bonds and asset-backed securities *	163,625	BA3	Moody's
Corporate bonds and asset-backed securities *	792,242	Not rated	
Pooled investments *	26,492,119	Not rated	
Pooled investments **	4,235,313	Not rated	

* Police and Fire Retirement System Trust Fund assets

** Retiree Health Care Trust Fund assets

*** City government-wide assets

Declines in Investment Values - Subsequent to year end, the fair value of the City's investment portfolio (reflected in the retirement systems and retiree healthcare trust funds) declined by approximately \$15,000,000, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Risks and Uncertainties - The City invests in various securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Note 4 - Restricted Assets

The Grosse Ile/Trenton Utility Bond restricted assets represent unspent bond proceeds that have been restricted for construction, water and sewer line replacement, and capital asset acquisitions, including unspent proceeds earning interest, from the obligation to the Grosse Ile/Trenton Utilities Authority.

A portion of the water and sewer user fee (capital charges) has been restricted by the City to be used solely for the purpose of making capital improvements in the water and sewer system.

Sewer debt millage collections have been restricted by the City to be used solely for the purpose of making debt payments on the State Revolving Fund Loans.

City of Trenton, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Restricted Assets (Continued)

A summary of primary government and component unit restricted assets and current liabilities payable from restricted assets at June 30, 2008 follows:

	Primary Government - Water and Sewer Fund				
	Grosse Ile/ Trenton				
	Administrative Consent Order Construction	Utility Bonds	Debt Service	Capital Charges	Total Primary Government
Restricted assets - Cash	\$ -	\$ 507,215	\$ 598,916	\$ 632,248	\$ 1,738,379
Current liabilities payable from restricted assets - Retainage payable	34,310	-	-	-	34,310

Note 5 - Capital Assets

Capital asset activity of the City's governmental activities, business-type activities, and component unit was as follows:

	Balance July 1, 2007	Reclassifications and Transfers	Additions	Disposals	Balance June 30, 2008
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,083,387	\$ -	\$ -	\$ -	\$ 1,083,387
Construction in progress	49,000	(49,000)	-	-	-
Subtotal	1,132,387	(49,000)	-	-	1,083,387
Capital assets being depreciated:					
Land improvements	4,009,120	236,354	115,984	-	4,361,458
Roads and sidewalks	18,930,751	1,316,637	974,366	(123,561)	21,098,193
Buildings and improvements	8,446,547	54,878	1,085,109	-	9,586,534
Vehicles	4,702,768	-	474,180	(430,050)	4,746,898
Furniture and equipment	5,360,988	28,799	733,986	(252,615)	5,871,158
Subtotal	41,450,174	1,636,668	3,383,625	(806,226)	45,664,241
Accumulated depreciation:					
Land improvements	738,725	236,521	142,035	-	1,117,281
Roads and sidewalks	13,576,118	-	389,885	(123,563)	13,842,440
Buildings and improvements	3,770,534	1,451	152,896	-	3,924,881
Vehicles	3,385,841	-	271,555	(362,543)	3,294,853
Furniture and equipment	3,721,950	15,632	302,456	(252,582)	3,787,456
Subtotal	25,193,168	253,604	1,258,827	(738,688)	25,966,911
Net capital assets being depreciated	16,257,006	1,383,064	2,124,798	(67,538)	19,697,330
Net capital assets	\$ 17,389,393	\$ 1,334,064	\$ 2,124,798	\$ (67,538)	\$ 20,780,717

City of Trenton, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

	Balance July 1, 2007	Reclassifications and Transfers	Additions	Disposals	Balance June 30, 2008
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 13,500	\$ -	\$ -	\$ -	\$ 13,500
Construction in progress	29,165	-	-	(29,165)	-
Subtotal	42,665	-	-	(29,165)	13,500
Capital assets being depreciated:					
Land improvements	1,809,881	(1,552,991)	-	-	256,890
Water and sewer distribution systems	61,082,249	(2,100)	17,921	-	61,098,070
Treatment facilities	12,315,210	-	806,418	-	13,121,628
Buildings and building improvements	11,607,002	(5,878)	-	-	11,601,124
Machinery and equipment	2,774,197	(26,699)	119,126	(23,108)	2,843,516
Subtotal	89,588,539	(1,587,668)	943,465	(23,108)	88,921,228
Accumulated depreciation:					
Land improvements	269,031	(236,521)	13,396	-	45,906
Water and sewer distribution systems	10,163,301	(220)	1,162,163	-	11,325,244
Treatment facilities	6,645,501	-	459,809	-	7,105,310
Buildings and building improvements	3,822,258	(1,451)	571,885	-	4,392,692
Machinery and equipment	1,468,892	(15,412)	185,396	(23,108)	1,615,768
Subtotal	22,368,983	(253,604)	2,392,649	(23,108)	24,484,920
Net capital assets being depreciated	67,219,556	(1,334,064)	(1,449,184)	-	64,436,308
Net capital assets	\$ 67,262,221	\$ (1,334,064)	\$ (1,449,184)	\$ (29,165)	\$ 64,449,808
Component unit - Capital assets being depreciated - Land improvements	\$ 2,999,849	\$ -	\$ 165,945	\$ (11,929)	\$ 3,153,865
Less accumulated depreciation	115,496	-	77,609	(33)	193,072
Net capital assets being depreciated	2,884,353	-	88,336	(11,896)	2,960,793
Net capital assets	\$ 2,884,353	\$ -	\$ 88,336	\$ (11,896)	\$ 2,960,793

City of Trenton, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 455,497
Public safety	111,836
Public works	51,754
Recreation and culture	321,758
Internal Service Fund depreciation is charged to various functions based on their usage of the asset	317,982

Total governmental activities \$ 1,258,827

Business-type activities:

Water and sewer	\$ 1,753,896
Recreation	638,753

Total business-type activities \$ 2,392,649

Note 6 - Interfund Transfers

The composition of interfund transfers at the fund level is as follows:

	Transfers Out			Total
	General Fund	Other Governmental Funds	Business-type Activities	
Transfers in:				
General Fund	\$ -	\$ -	\$ 75,000	\$ 75,000
Other governmental funds	-	830,000	-	830,000
Business-type activities	789,792	-	-	789,792
Total	<u>\$ 789,792</u>	<u>\$ 830,000</u>	<u>\$ 75,000</u>	<u>\$ 1,694,792</u>

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations and projects accounted for in the respective funds.

During 2008, the Recreation Fund (business-type activity) transferred certain fixed assets with a net book value of \$1,334,064 and related debt of \$1,558,062 associated with the pool at the recreation center to the General Fund. The transfer is recorded as a transfer in the Recreation Fund and a transfer out on the statement of activities.

City of Trenton, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Long-term obligation activity can be summarized as follows:

	Maturing Through	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Transfers	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental activities:								
General obligation bonds:								
General obligation unlimited tax bonds - Library Bonds - Amount of issue - \$4,000,000	2013	3.900% - 5.875%	\$350,000 - \$500,000	\$ 2,400,000	\$ -	\$ (350,000)	\$ 2,050,000	\$ 350,000
Building Authority Bonds - Amount of issue - \$1,800,000	2022	3.00% - 4.60%	\$9,000- \$12,600	-	148,500	(9,000)	139,500	9,000
Building Authority Bonds - Amount of issue - \$8,000,000	2011	5.125% - 5.625%	\$60,000 - \$80,000	-	260,000	(60,000)	200,000	60,000
Building Authority Refunding Bonds - Amount of issue - \$6,115,000	2021	3.25 % - 5.00%	\$6,000 - \$127,000	-	1,218,000	(5,000)	1,213,000	6,000
Deferred charges				-	(68,438)	4,562	(63,876)	(4,562)
Total general obligation bonds				2,400,000	1,558,062	(419,438)	3,538,624	420,438
Installment purchase agreements:								
Computer equipment and software - Amount of issue - \$320,810	2010	3.49%	\$64,162	128,324	-	(64,162)	64,162	64,162
Trash Carts Loan - Amount of issue - \$353,850	2012	3.99%	\$19,411 - \$67,273	-	-	305,145	305,145	67,237
Total installment loans				128,324	-	240,983	369,307	131,399
Other long-term obligations:								
Compensated absences				2,405,510	-	(51,615)	2,353,895	1,041,259
Uninsured claims				400,000	-	(200,000)	200,000	200,000
Total other long-term obligations				2,805,510	-	(251,615)	2,553,895	1,241,259
Total governmental activities				5,333,834	1,558,062	(430,070)	6,461,826	1,793,096
Business-type activities:								
General obligation bonds:								
Water and Sewer Fund Contractual Obligation - Related to Grosse Ile/Trenton Utilities Authority Bonds, Series B - Amount of issue - \$1,999,850	2018	4.20% - 6.25%	\$95,738 - \$148,925	1,457,337	-	(95,739)	1,361,598	117,012
State Revolving Fund Limited Tax Bonds - Program 5127-01 - Amount of issue - \$12,095,000	2021	2.5%	\$565,000 - \$760,000	9,056,166	-	(550,000)	8,506,166	565,000
State Revolving Fund Limited Tax Bonds - Program 5127-02 - Amount of issue - \$16,535,000	2022	2.5%	\$750,000 - \$1,035,000	12,535,603	-	(730,000)	11,805,603	750,000
State Revolving Fund Limited Tax Bonds - Program 5127-03 - Amount of issue - \$1,005,000	2024	2.5%	\$45,000 - \$65,000	790,648	-	(45,000)	745,648	45,000
State Revolving Fund Limited Tax Bonds - Program 5127-04 - Amount of issue - \$10,325,000	2024	2.5%	\$445,000 - \$650,000	8,472,518	-	(435,000)	8,037,518	445,000
State Revolving Fund Limited Tax Bonds - Program 5127-05 - Amount of issue - \$1,990,000	2025	2.5%	\$85,000 - \$125,000	1,676,118	-	73,882	1,750,000	85,000
State Revolving Fund Limited Tax Bonds - Program 5127-06 - Amount of issue - \$4,130,000	2026	2.5%	\$175,000 - \$250,000	3,960,000	-	(170,000)	3,790,000	175,000
Building Authority Bonds - Amount of issue - \$1,800,000	2022	3.00% - 4.60%	\$91,000 - \$127,400	1,650,000	(148,500)	(91,000)	1,410,500	91,000
Building Authority Bonds - Amount of issue - \$8,000,000	2011	5.125% - 5.625%	\$240,000 - \$320,000	1,300,000	(260,000)	(240,000)	800,000	240,000
Building Authority Refunding Bonds - Amount of issue - \$6,115,000	2021	3.25 % - 5.00%	\$24,000 - \$508,000	6,090,000	(1,218,000)	(20,000)	4,852,000	24,000
Building Authority Refunding Bonds - Deferred charges				(342,188)	68,438	18,250	(255,500)	(18,250)
Total general obligation bonds				46,646,202	(1,558,062)	(2,284,607)	42,803,533	2,518,762
Compensated absences				303,481	-	(27,146)	276,335	113,439
Total business-type activities				46,949,683	(1,558,062)	(2,311,753)	43,079,868	2,632,201
Total governmental activities and business-type activities				\$ 52,283,517	\$ -	\$ (2,741,823)	\$ 49,541,694	\$ 4,425,297

Note 7 - Long-term Debt (Continued)

	Maturing Through	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Transfers	Additions (Reductions)	Ending Balance	Due Within One Year
Component units:								
General obligation limited tax bonds - Downtown Development Authority Bonds - Amount of issue - \$1,400,000	2023	3.8% - 5.5%	\$50,000 - \$100,000	\$ 1,300,000	\$ -	\$ (50,000)	\$ 1,250,000	\$ 50,000
General obligation limited tax bonds - Downtown Development Authority Bonds - Amount of issue - \$920,000	2024	3.8% - 5.5%	\$25,000 - \$90,000	875,000	-	(25,000)	850,000	25,000
Other long-term obligations - Brownfield Authority Advance from General Fund - Amount of issue - \$135,000	2008	1.45%	\$30,000 - \$35,000	65,000	-	-	65,000	30,000
Total component units				\$ 2,240,000	\$ -	\$ (75,000)	\$ 2,165,000	\$ 105,000

Approximately 24.5 percent of the installment purchase agreement for computer equipment and software relates to the acquisition of computer equipment and software on behalf of the Shared Information Network Consortium (S.I.N.C.), a Special Revenue Fund. The City expects that this percentage of the debt service will be provided by S.I.N.C. The consortium, which is essentially a cost-sharing arrangement between six communities including the City, will provide computer services to its member communities' law enforcement agencies. The consortium expects to obtain its required operating revenue from funds obtained from the district court's technology fund. Any costs not covered by the technology fund will be funded by the participating communities.

The compensated absences liability represents the estimated liability to be paid to employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the City.

The water and sewer contractual obligation represents the City's obligation to service a portion of a \$4,700,000 bond issued by the Grosse Ile - Trenton Utilities Authority representing the percentage of the total bond proceeds that was disbursed to the City for system construction projects. The City's transactions with the Authority are limited to the issuance and repayment of this obligation (see Note 14).

The Downtown Development Authority Bonds represent monies to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. The City has pledged its full faith and credit in support of these obligations.

Note 7 - Long-term Debt (Continued)

The long-term advance from the General Fund to the Brownfield Redevelopment Authority represents monies advanced to cover a portion of the costs associated with long-term redevelopment and remediation of environmentally contaminated sites within the Brownfield District. The advance is to be repaid, with interest, from property taxes captured by the Brownfield Redevelopment Authority.

Annual debt service requirements, exclusive of compensated absences and uninsured claims, to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 556,399	\$ 158,213	\$ 714,612	\$ 2,537,012	\$ 1,195,025	\$ 3,732,037	\$ 105,000	\$ 91,988	\$ 196,988
2010	544,960	133,717	678,677	2,582,013	1,121,971	3,703,984	110,000	88,588	198,588
2011	567,794	110,495	678,289	2,722,013	1,047,962	3,769,975	75,000	85,575	160,575
2012	570,743	85,271	656,014	2,793,288	960,184	3,753,472	100,000	82,013	182,013
2013	614,411	60,600	675,011	2,848,288	878,257	3,726,545	105,000	77,793	182,793
2014-2018	590,150	171,788	761,938	15,643,838	3,057,416	18,701,254	700,000	306,418	1,006,418
2019-2023	527,350	43,688	571,038	12,910,067	849,502	13,759,569	880,000	124,910	1,004,910
2024-2028	-	-	-	1,022,514	30,360	1,052,874	90,000	1,934	91,934
Total	\$ 3,971,807	\$ 763,772	\$ 4,735,579	\$ 43,059,033	\$ 9,140,677	\$ 52,199,710	\$ 2,165,000	\$ 859,219	\$ 3,024,219

Total interest expense incurred by the City for the year approximated \$1,550,000.

Note 8 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2008, the City had deferred revenue related to grant monies received prior to meeting all eligibility requirements of \$521,911.

Note 9 - Property Taxes

Property taxes for the City based on a taxable value of approximately \$912,000,000 are comprised of the following components:

	General Fund			Special Revenue Fund		Enterprise Fund	
	Firemen and Policemen Retirement System	Solid Waste	Operating	Other Tax Collection and Trailer Park Fees	Library Operating and Library Debt	Total Governmental Activities	Sewer Debt
Millage rate	0.9602	1.5226	14.5488	-	0.9828	18.0144	2.9856
Total	\$ 805,629	\$ 1,277,495	\$ 12,206,763	\$ 9,204	\$ 858,202	\$ 15,157,293	\$ 2,606,797

The firemen and policemen retirement system, solid waste, library operating and debt service, and sewer debt mills were approved specifically for the use in funding a pension plan, providing particular services by the City, and funding certain debt service requirements. To the extent that property taxes levied exceed actual costs, fund balance/net assets will be reserved.

Note 10 - Postemployment Benefits

The City provides life insurance and healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 201 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare and life insurance benefits include insurance premiums that become due during the current year and discretionary contributions made to the Retiree Health Care Trust Fund.

This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

The collective bargaining agreements do not require contributions from employees. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. In the current year, the City paid postemployment healthcare premiums of \$2,742,000 plus it contributed \$2,000,000 into the Retiree Healthcare Trust Fund, which is reported in this financial statement as a pension and other employee benefit trust fund type.

Note 10 - Postemployment Benefits (Continued)

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of June 30, 2007:

Actuarial value of assets	\$ 2,282,504
Actuarial accrued liability	\$ 52,452,466
Unfunded AAL	\$ 50,169,962
Funded ratio	4.4%
Annual covered payroll	\$ 6,534,279
Ratio of UAAL to covered payroll	768%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress above presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2007 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included an 8 percent investment rate of return (net of investment expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 4.0 percent after 10 years. Both rates included a 4.5 percent inflation assumption. Actuarial gains and losses reduce (increase) the UAAL as they occur. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007 was 30 years.

Note 10 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers’ compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League (risk pool) for claims relating to property loss, general liability, and workers’ compensation. The City has also assumed a significant amount of financial responsibility for its actual incurred medical claims cost, subject to certain insured aggregate limitations of \$75,000 per specific claim and approximately \$2,500,000 in the aggregate.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City estimates the liability for medical and other claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are generally recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability are as follows:

	2008	2007
Estimated liability - Beginning of year	\$ 909,263	\$ 925,201
Estimated claims incurred, including charges in estimates and related administrative costs	4,176,448	4,206,848
Claim and related administrative payments	<u>(4,353,148)</u>	<u>(4,222,786)</u>
Estimated liability - End of year	<u>\$ 732,563</u>	<u>\$ 909,263</u>

Note 11 - Risk Management (Continued)

A total of \$200,000 of the total estimated liability, related to a personal property tax dispute, has been recorded in long-term debt (see Note 7). The remaining liability represents the accrual for claims incurred but not reported and is recorded in accrued and other liabilities of the Self-insurance Internal Service Fund.

Note 12 - Pension Plans

Descriptions of Defined Benefit Plans

Municipal Employees' Retirement System of Michigan - The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City hired before January 1, 1996, other than firemen and policemen. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplemental information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Firemen and Policemen Retirement System - The City contributes to the Firemen and Policemen Retirement System, which is the administrator of a single-employer public benefit pension plan that currently covers substantially all full-time fire and police employees hired before January 1, 1996. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, membership consisted of 99 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 51 current active employees. The plan does not issue a separate financial report.

Defined Benefit Contributions and Funding Status

Municipal Employees' Retirement System of Michigan - Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of approximately 3 percent to 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Note 12 - Pension Plans (Continued)

Firemen and Policemen Retirement System - Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent. Administrative costs of the plan are financed through investment earnings.

Defined Benefit Annual Pension Cost

For the year ended June 30, 2008, the City's annual pension cost of \$676,617 for the MERS plan, exclusive of \$123,494 of employee contributions, was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, (c) additional projected salary increases of 0 percent to 8.40 percent per year, attributable to seniority/merit, and (d) postretirement benefit increases of 2.5 percent annually, limited cumulative to increases in the Consumer Price Index. Both (a) and (b) include an inflation component of 4.5 percent.

The actuarial value of assets was determined on the basis of a valuation method that uses techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll determined using the individual attained age actuarial funding method over an open amortization period of 30 years.

Note 12 - Pension Plans (Continued)

For the year ended June 30, 2008, the City's annual Firemen and Policemen Retirement System pension cost for the plan and its actual contribution, exclusive of \$197,059 of employee contributions, were equal to the City's \$838,615 required contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2006, using the aggregate actuarial cost method. Significant actuarial assumptions used include (a) an 8.05 percent investment rate of return for 2007, graded to 7.0 percent in 2015 and thereafter, (b) projected salary increases of 3.5 percent per year, (c) additional projected salary increases of 0.2 percent to 8.0 percent per year, attributable to seniority/merit, and (d) postretirement benefit increases of 10 percent after five years, 10 percent after 10 years, and 5 percent after 15 years. Both (a) and (b) include an inflation component of 3.50 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is six years at June 30, 2008.

Reserves - As of June 30, 2008, the Firemen and Policemen Retirement System plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 3,092,723
Reserve for retired benefit payments	35,467,661

Note 12 - Pension Plans (Continued)

Funded Status and Funding Progress

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2006	2007	2008
Municipal Employees' Retirement System of Michigan:			
Annual pension costs (APC)	\$ 517,429	\$ 603,845	\$ 676,617
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 29,398,634	\$ 30,012,752	\$ 30,712,554
Actuarial accrued liability (AAL)	\$ 39,805,214	\$ 40,591,815	\$ 41,127,277
Unfunded AAL (UAAL)	\$ 10,406,580	\$ 10,579,063	\$ 10,414,723
Funded ratio	74%	74%	75%
Covered payroll	\$ 2,834,457	\$ 2,638,363	\$ 2,467,855
UAAL as a percentage of covered payroll	367%	401%	422%
Firemen and Policemen Retirement System:			
Annual pension costs (APC)	\$ 1,225,411	\$ 1,100,318	\$ 838,615
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets *	\$ 49,342,884	\$ 52,250,005	\$ 56,272,692
Actuarial accrued liability (AAL) *	\$ 49,342,884	\$ 52,250,005	\$ 54,939,391
Unfunded AAL (UAAL)	\$ -	\$ -	\$ (1,333,301)
Funded ratio	100%	100%	102%
Covered payroll	\$ 4,023,462	\$ 4,066,424	\$ 3,646,192
UAAL as a percentage of covered payroll	0%	0%	0%

* In the current year, the Firemen and Policemen Retirement System adopted GASB No. 50 and the funding status was calculated using the entry age actuarial cost method, whereas in prior years it was calculated using the aggregate funding method.

Defined Contribution Pension Plans

Full-time employees hired after January 1, 1996 (except the AFSCME Local 292, for which the effective date was July 1, 1996) do not become members of either of the two defined benefit pension plans discussed above. Rather, they participate in one of the City's two defined contribution plans: the General Employees' Money Purchase Plan (General Employees' Plan) or the City of Trenton Fire Fighters and Police Officers Money Purchase Plan (Fire Fighters and Police Officers Plan). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Note 12 - Pension Plans (Continued)

As established by various employee competitive bargaining units, the City contributes 6 percent and 12 percent of employees' gross earnings for the General Employees' Plan and Fire Fighters and Police Officers Plan, respectively, and the employees contribute 6 percent of earnings for both plans. The City's contributions for each employee plus interest allocated to the employee's account are fully vested after five years of service.

In accordance with these requirements, the City contributed \$135,580 and \$125,136 during the current year and the employees contributed \$135,580 and \$62,568 during the current year for the General Employees' Plan and Fire Fighters and Police Officers Plan, respectively. The plans' assets, which aggregated \$3,079,223 at June 30, 2008, are held by an independent third-party administrator.

Note 13 - Pension and Other Employee Benefit Trust Fund

The following are condensed financial statements for the Pension and Other Employee Benefit Trust Fund which include the Firemen and Policemen Retirement System and the Retiree Health Care Trust Funds:

	Firemen and Policemen Retirement System Trust Fund	Retiree Health Care Trust Fund	Total
Statement of net assets:			
Cash and investments	\$ 58,856,070	\$ 4,235,313	\$ 63,091,383
Receivables	233,168	-	233,168
Total net assets	<u>\$ 59,089,238</u>	<u>\$ 4,235,313</u>	<u>\$ 63,324,551</u>
Statement of changes in net assets:			
Investment income	\$ (305,022)	\$ (128,788)	\$ (433,810)
Contributions	1,035,674	2,000,000	3,035,674
Benefit payments	(3,272,147)	-	(3,272,147)
Administrative expenses	(22,433)	(1,500)	(23,933)
Change in net assets	<u>\$ (2,563,928)</u>	<u>\$ 1,869,712</u>	<u>\$ (694,216)</u>

Note 14 - Joint Ventures

33rd District Court System

The City is a member of the 33rd District Court System (the “District Court”), which provides judicial services to the City and various other surrounding communities. The City appoints one member to the joint venture’s governing board, which then approves the annual budget.

During the current year, the District Court paid approximately \$41,000 to the City, representing the City’s share of the District Court’s net activity. Complete financial statements are available at the City offices. The District Court receives its operating revenue principally through contributions from member communities, fines, and forfeitures.

Grosse Ile-Trenton Utilities Authority

The City is also a member of the Grosse Ile-Trenton Utilities Authority (the “Authority”) joint venture. The Authority’s governing body is composed of two appointees, one from each member of the joint venture. The Authority was established in order to provide an efficient means of acquiring and constructing water supply and sewage disposal systems and to extend use privileges to each other’s residents where deemed appropriate by the communities.

Required Supplemental Information

City of Trenton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 8,734,962	\$ 8,734,962	\$ 8,734,962	\$ -
Resources (Inflows)				
Property taxes	14,343,091	14,343,091	14,313,664	(29,427)
Licenses and permits	555,675	555,675	717,374	161,699
State sources	2,210,170	2,210,170	2,154,388	(55,782)
Charges for services	917,000	1,033,000	1,003,016	(29,984)
Fines and forfeitures	380,750	380,750	438,411	57,661
Interest income	700,000	700,000	760,580	60,580
Other	373,500	376,800	396,270	19,470
Issuance of debt	-	-	353,850	353,850
Transfer from other funds	-	-	75,000	75,000
Total resources (inflows)	19,480,186	19,599,486	20,212,553	613,067
Charges to Appropriations (Outflows)				
General government:				
Mayor and Council	108,906	108,906	86,980	21,926
District Court	391,000	391,000	396,880	(5,880)
City administrator	366,525	366,525	374,112	(7,587)
City clerk - Elections	35,406	35,406	21,752	13,654
City assessor	189,433	189,433	176,218	13,215
City attorney	202,000	202,000	213,742	(11,742)
City clerk - General	224,995	224,995	225,915	(920)
City controller	293,590	293,590	292,059	1,531
Tax Review Board	1,500	1,500	1,650	(150)
City treasurer	200,330	200,330	199,867	463
Municipal buildings/facilities	1,143,107	1,143,107	1,099,538	43,569
Planning Commission	17,700	17,700	12,056	5,644
Zoning Board of Appeals	1,530	1,530	660	870
Building Board of Appeals	390	390	45	345
Central office	241,798	241,798	270,631	(28,833)
Total general government	3,418,210	3,418,210	3,372,105	46,105
Public safety:				
Police department	4,377,790	4,377,790	4,397,024	(19,234)
Traffic Safety Commission	950	950	645	305
Fire department	3,495,011	3,495,011	3,397,653	97,358
Emergency	68,672	68,672	55,213	13,459
Corrections department/jail	47,200	47,200	30,436	16,764
Building inspection	438,692	438,692	453,394	(14,702)
Civil defense	25,192	25,192	25,798	(606)
Crossing guards	73,368	73,368	70,053	3,315
Total public safety	8,526,875	8,526,875	8,430,216	96,659

Note: The above General Fund charges to appropriations (outflows) - budget and actual is for additional information only and represents greater detail than the adopted budget, except for department totals.

City of Trenton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows) (Continued)				
Public works:				
Department of Public Works	\$ 1,173,171	\$ 1,248,871	\$ 1,265,847	\$ (16,976)
City engineer	524,292	524,292	487,076	37,216
Street lighting	620,000	620,000	595,410	24,590
Sanitation	1,246,674	1,170,974	1,101,461	69,513
Protection to animals	95,691	95,691	76,068	19,623
Total public works	3,659,828	3,659,828	3,525,862	133,966
Health and welfare - Environmental Control Commission	500	500	-	500
Culture and recreation:				
Parks department	650,110	650,110	607,219	42,891
Cultural Center	23,000	23,000	19,949	3,051
Historical Commission	7,875	7,875	5,488	2,387
Library Commission	400	400	690	(290)
Cultural Commission	4,580	4,580	-	4,580
Recreation Commission	1,350	1,350	345	1,005
Civic Commission	14,410	14,410	19,092	(4,682)
Youth Commission	1,000	1,000	850	150
Beautification Commission	3,865	3,865	652	3,213
Outdoor pool	-	395,809	413,208	(17,399)
Total culture and recreation	706,590	1,102,399	1,067,493	34,906
Other	2,592,842	2,592,842	4,850,386	(2,257,544)
Debt service	77,641	77,641	59,063	18,578
Transfers to other funds	497,700	221,191	789,792	(568,601)
Total charges to appropriations (outflows)	19,480,186	19,599,486	22,094,917	(2,495,431)
Fund Balance - End of year	\$ 8,734,962	\$ 8,734,962	\$ 6,852,598	\$ (1,882,364)

Note: The above General Fund charges to appropriations (outflows) - budget and actual is for additional information only, and represents greater detail than the adopted budget, except for department totals.

City of Trenton, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress* June 30, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio Percent (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
Firemen and Policemen Retirement System						
6/30/02	\$ 46,492,395	\$ 46,492,395	\$ -	100%	\$ 4,521,806	-
6/30/03	45,598,928	45,598,928	-	100%	4,364,481	-
6/30/04	45,716,012	45,716,012	-	100%	4,132,159	-
6/30/05	49,342,884	49,342,884	-	100%	4,023,462	-
6/30/06	52,250,005	52,250,005	-	100%	4,066,424	-
6/30/07 **	56,272,692	54,939,391	(1,333,301)	102%	3,646,192	-

* Required by Governmental Accounting Standards Board Statement No. 25

** Due to the adoption of GASB No. 50 in 2007, the funding status is calculated using the entry age actuarial cost method, whereas in prior years it was calculated using the aggregate funding method.

City of Trenton, Michigan

Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2008

Firemen and Policemen Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
06/30/03	06/30/01	\$ 695,508	100
06/30/04	06/30/02	883,109	100
06/30/05	06/30/03	1,154,506	100
06/30/06	06/30/04	1,225,411	100
06/30/07	06/30/05	1,100,318	100
06/30/08	06/30/06	838,615	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2006, the latest actuarial valuation date for the Firemen and Policemen Retirement System, is as follows:

Firemen and Policemen Retirement System

Actuarial cost method	Aggregate actuarial cost method
Amortization method	Level over future working lifetime
Remaining amortization period	7 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.05% for 2007, graded to 7% in 2015 and thereafter
Projected salary increases*	3.7% - 11.5%
*Includes inflation at	3.5%
Postretirement benefit increases	10% after five years, 10% after 10 years, and 5% after 15 years

Other Supplemental Information

City of Trenton, Michigan

Special Revenue

	Major Roads	Local Roads	Community Development Block Grant	Severance Pay	Special Projects	Grant
Assets						
Cash and investments	\$ (70,184)	\$ 404,269	\$ 83,706	\$ 1,052,923	\$ 666,384	\$ 420,047
Receivables	-	75	23,862	-	2,796	57,816
Due from other governmental units	113,240	48,852	-	-	-	-
Total assets	<u>\$ 43,056</u>	<u>\$ 453,196</u>	<u>\$ 107,568</u>	<u>\$ 1,052,923</u>	<u>\$ 669,180</u>	<u>\$ 477,863</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 31,499	\$ 140,200	\$ -	\$ -	\$ 14,085	\$ 23,839
Accrued and other liabilities	5,108	5,123	-	58,998	-	3,050
Deferred revenue	-	-	76,478	-	-	396,831
Total liabilities	36,607	145,323	76,478	58,998	14,085	423,720
Fund Balances - Unreserved and undesignated	<u>6,449</u>	<u>307,873</u>	<u>31,090</u>	<u>993,925</u>	<u>655,095</u>	<u>54,143</u>
Total liabilities and fund balances	<u>\$ 43,056</u>	<u>\$ 453,196</u>	<u>\$ 107,568</u>	<u>\$ 1,052,923</u>	<u>\$ 669,180</u>	<u>\$ 477,863</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

Funds			
Library	S.I.N.C.	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 376,922	\$ 209,783	\$ 894,980	\$ 4,038,830
62,982	96,299	-	243,830
-	-	-	162,092
<u>\$ 439,904</u>	<u>\$ 306,082</u>	<u>\$ 894,980</u>	<u>\$ 4,444,752</u>
\$ 17,514	\$ 2,363	\$ 37,588	\$ 267,088
997	-	-	73,276
-	48,602	-	521,911
18,511	50,965	37,588	862,275
421,393	255,117	857,392	3,582,477
<u>\$ 439,904</u>	<u>\$ 306,082</u>	<u>\$ 894,980</u>	<u>\$ 4,444,752</u>

City of Trenton, Michigan

						Special Revenue
	Major Roads	Local Roads	Community Development Block Grant	Severance Pay	Special Projects	Grant
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	230,160	-	-	1,336,479
State sources	691,252	298,128	-	-	-	88,118
Interest income	2,754	4,271	-	50,698	-	-
Other	46,767	-	-	-	333,223	803
Total revenue	740,773	302,399	230,160	50,698	333,223	1,425,400
Expenditures						
Current:						
Public works department	714,620	1,120,951	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Special projects	-	-	235,534	-	288,220	1,422,212
Other	-	-	-	112,867	-	-
Debt service	-	-	-	-	-	-
Total expenditures	714,620	1,120,951	235,534	112,867	288,220	1,422,212
Excess of Revenue Over (Under) Expenditures	26,153	(818,552)	(5,374)	(62,169)	45,003	3,188
Other Financing Sources (Uses)						
Transfers in	-	830,000	-	-	-	-
Transfers out	(355,000)	-	-	-	-	-
Total other financing sources (uses)	(355,000)	830,000	-	-	-	-
Net Change in Fund Balances	(328,847)	11,448	(5,374)	(62,169)	45,003	3,188
Fund Balances - Beginning of year	335,296	296,425	36,464	1,056,094	610,092	50,955
Fund Balances - End of year	<u>\$ 6,449</u>	<u>\$ 307,873</u>	<u>\$ 31,090</u>	<u>\$ 993,925</u>	<u>\$ 655,095</u>	<u>\$ 54,143</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2008

Funds

Library	S.I.N.C.	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 843,629	\$ -	\$ -	\$ 843,629
-	-	-	1,566,639
-	-	-	1,077,498
30,332	9,643	67,825	165,523
67,153	258,745	25,265	731,956
941,114	268,388	93,090	4,385,245
-	-	-	1,835,571
421,667	-	-	421,667
-	142,089	253,400	2,341,455
-	-	-	112,867
441,975	67,876	-	509,851
863,642	209,965	253,400	5,221,411
77,472	58,423	(160,310)	(836,166)
-	-	-	830,000
-	-	(475,000)	(830,000)
-	-	(475,000)	-
77,472	58,423	(635,310)	(836,166)
343,921	196,694	1,492,702	4,418,643
\$ 421,393	\$ 255,117	\$ 857,392	\$ 3,582,477

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2008

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 302,163	\$ 2,062,535	\$ 2,364,698
Prepaid costs and other assets	-	235,011	235,011
Inventories	141,853	-	141,853
Total current assets	444,016	2,297,546	2,741,562
Noncurrent assets - Capital assets	1,958,163	-	1,958,163
Total assets	2,402,179	2,297,546	4,699,725
Liabilities			
Current liabilities:			
Accounts payable	41,637	-	41,637
Accrued liabilities	14,457	534,136	548,593
Current portion of compensated absences	16,819	-	16,819
Total current liabilities	72,913	534,136	607,049
Noncurrent liabilities - Provision for compensated absences	35,684	-	35,684
Total liabilities	108,597	534,136	642,733
Net Assets			
Invested in capital assets	1,958,163	-	1,958,163
Unrestricted	335,419	1,763,410	2,098,829
Total net assets	<u>\$ 2,293,582</u>	<u>\$ 1,763,410</u>	<u>\$ 4,056,992</u>

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2008

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
Operating Revenue			
Charges for services	\$ 1,100,001	\$ 5,009,803	\$ 6,109,804
Other	<u>396</u>	<u>95,162</u>	<u>95,558</u>
Total operating revenue	1,100,397	5,104,965	6,205,362
Operating Expenses			
Insurance, claims, and other	-	4,483,541	4,483,541
General and administrative expenses	1,018,736	-	1,018,736
Depreciation	<u>317,982</u>	<u>-</u>	<u>317,982</u>
Total operating expenses	<u>1,336,718</u>	<u>4,483,541</u>	<u>5,820,259</u>
Operating (Loss) Income	(236,321)	621,424	385,103
Nonoperating Income (Expense)			
Interest income	21,440	80,846	102,286
Loss on disposal of capital assets	<u>(24,964)</u>	<u>-</u>	<u>(24,964)</u>
Total nonoperating (expense) income	<u>(3,524)</u>	<u>80,846</u>	<u>77,322</u>
(Loss) Income - Before capital contributions	(239,845)	702,270	462,425
Capital Contributions	<u>135,728</u>	<u>-</u>	<u>135,728</u>
Net (Loss) Income	(104,117)	702,270	598,153
Net Assets - Beginning of year	<u>2,397,699</u>	<u>1,061,140</u>	<u>3,458,839</u>
Net Assets - End of year	<u><u>\$ 2,293,582</u></u>	<u><u>\$ 1,763,410</u></u>	<u><u>\$ 4,056,992</u></u>

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2008

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
Cash Flows from Operating Activities			
Charges for services	\$ 1,102,232	\$ 5,099,747	\$ 6,201,979
Payments to suppliers	(634,652)	-	(634,652)
Claims paid	-	(4,458,668)	(4,458,668)
Payments to employees	(414,908)	-	(414,908)
Other receipts	396	95,162	95,558
Net cash provided by operating activities	53,068	736,241	789,309
Cash Flows from Investing Activities - Interest received on investments and other assets	21,440	80,846	102,286
Cash Flows from Capital and Related Financing Activities			
Proceeds from sale of assets	42,543	-	42,543
Purchase of capital assets	(339,702)	-	(339,702)
Net cash used in capital and related financing activities	(297,159)	-	(297,159)
Net Change in Cash and Cash Equivalents	(222,651)	817,087	594,436
Cash and Cash Equivalents - Beginning of year	524,814	1,245,448	1,770,262
Cash and Cash Equivalents - End of year	<u>\$ 302,163</u>	<u>\$ 2,062,535</u>	<u>\$ 2,364,698</u>
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities			
Operating (loss) income	\$ (236,321)	\$ 621,424	\$ 385,103
Adjustments to reconcile operating (loss) income to net cash from operating activities:			
Depreciation	317,982	-	317,982
Changes in assets and liabilities:			
Prepaid costs and other assets	(37,635)	89,944	52,309
Accounts payable	7,337	-	7,337
Accrued and other liabilities	1,705	24,873	26,578
Net cash provided by operating activities	<u>\$ 53,068</u>	<u>\$ 736,241</u>	<u>\$ 789,309</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2008, other funds of the City purchased vehicles and equipment totaling \$135,728 and donated them to the Motor Vehicle Pool Fund.

City of Trenton, Michigan

	Trust Funds		
	Firemen and Policemen Retirement System	Retiree Health Care	Total Trust Funds
Assets			
Cash and investments	\$ 58,856,070	\$ 4,235,313	\$ 63,091,383
Receivables	233,168	-	233,168
Due from other funds	-	-	-
Total assets	<u>\$ 59,089,238</u>	<u>\$ 4,235,313</u>	<u>\$ 63,324,551</u>
Liabilities and Fund Balances			
Liabilities			
Accrued and other liabilities	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Due to component units	-	-	-
Cash bonds and deposits	-	-	-
Total liabilities	-	-	-
Fund Balances - Held in trust for pension and other employee benefits	<u>59,089,238</u>	<u>4,235,313</u>	<u>63,324,551</u>
Total liabilities and fund balances	<u>\$ 59,089,238</u>	<u>\$ 4,235,313</u>	<u>\$ 63,324,551</u>

**Other Supplemental Information
Combining Balance Sheet
Fiduciary Funds
June 30, 2008**

Agency Funds

General Cash Fund	Escrow Fund	Tax Receiving Fund	Subtotal	Eliminations	Total Agency Funds
\$ 16,647,697	\$ 131,450	\$ 10,508	\$ 16,789,655	\$ (16,647,697)	\$ 141,958
	-	-	-		-
2,086,117	-	-	2,086,117	(2,086,117)	-
<u>\$ 18,733,814</u>	<u>\$ 131,450</u>	<u>\$ 10,508</u>	<u>\$ 18,875,772</u>	<u>\$ (18,733,814)</u>	<u>\$ 141,958</u>
\$ -	\$ -	\$ 10,508	\$ 10,508	\$ -	\$ 10,508
18,012,880	-	-	18,012,880	(18,012,880)	-
720,934	-	-	720,934	(720,934)	-
-	131,450	-	131,450	-	131,450
18,733,814	131,450	10,508	18,875,772	(18,733,814)	141,958
-	-	-	-	-	-
<u>\$ 18,733,814</u>	<u>\$ 131,450</u>	<u>\$ 10,508</u>	<u>\$ 18,875,772</u>	<u>\$ (18,733,814)</u>	<u>\$ 141,958</u>

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2008

	Firemen and Policemen Retirement System Trust Fund	Retiree Health Care Trust Fund	Total
Additions			
Investment income:			
Interest and dividends	\$ 1,761,126	\$ -	\$ 1,761,126
Net decrease in fair value of investments	(1,843,386)	(128,788)	(1,972,174)
Less investment expenses	(222,762)	-	(222,762)
Net investment loss	(305,022)	(128,788)	(433,810)
Contributions:			
Employer	838,615	2,000,000	2,838,615
Employee	197,059	-	197,059
Total contributions	1,035,674	2,000,000	3,035,674
Total additions	730,652	1,871,212	2,601,864
Deductions			
Benefit payments	3,272,147	-	3,272,147
Administrative expenses	22,433	1,500	23,933
Total deductions	3,294,580	1,500	3,296,080
Net (Decrease) Increase	(2,563,928)	1,869,712	(694,216)
Net Assets Held in Trust for Pension and Retiree Health Care			
Beginning of year	61,653,166	2,365,601	64,018,767
End of year	<u>\$ 59,089,238</u>	<u>\$ 4,235,313</u>	<u>\$ 63,324,551</u>

City of Trenton

Federal Awards Supplemental Information June 30, 2008

Independent Auditor's Report	I
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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Trenton

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton as of and for the year ended June 30, 2008, which collectively comprise the City of Trenton's basic financial statements, and have issued our report thereon dated November 25, 2008. Those basic financial statements are the responsibility of the management of the City of Trenton. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Trenton's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 25, 2008

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
City of Trenton

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton as of and for the year ended June 30, 2008, which collectively comprise the City of Trenton's basic financial statements, and have issued our report thereon dated November 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Trenton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Trenton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Trenton's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

To the Honorable Mayor and
Members of the City Council
City of Trenton, Michigan

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Trenton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, officials of the State of Michigan, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 25, 2008

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Trenton

Compliance

We have audited the compliance of the City of Trenton with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The major federal programs of the City of Trenton are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Trenton's management. Our responsibility is to express an opinion on the City of Trenton's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Trenton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Trenton's compliance with those requirements.

In our opinion, the City of Trenton complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

To the Honorable Mayor and
Members of the City Council
City of Trenton

Internal Control Over Compliance

The management of the City of Trenton is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Trenton's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, officials of the State of Michigan, and the federal awarding agencies is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 25, 2008

City of Trenton

Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Federal Agency/Pass-through Agency/ Program Title	CFDA Number	Award Amount	Federal Expenditures
U.S. Department of Homeland Security - Federal Emergency Management Agency - Assistance to Firefighters	97.044	\$ 57,684	\$ 52,624
U.S. Department of Housing and Urban Development - Passed through Wayne County - Community Development Block Grant:			
Program Year 2006	14.208	126,000	126,000
Program Year 2007	14.208	102,000	74,000
Program Year 2008	14.208	104,000	<u>35,534</u>
Total U.S. Department of Housing and and Urban Development			235,534
Department of Justice - Federal Equitable Sharing - U.S. Immigration and Customs Enforcement	16.unknown	1,105,624	1,105,624
U.S. Environmental Protection Agency:			
Brownfield Revolving Loan Assessment	66.818	200,000	10,721
Brownfield Revolving Loan Cleanup	66.818	500,000	<u>374,301</u>
Total U.S. Environmental Protection Agency			385,022
U.S. Department of Natural Resources - Emerald Ash Borer Tree Planting Grant	10.664	1,000	1,000
U.S. Department of Transportation - Federal Highway Administration - Passed through Michigan Department of Transportation - Highway Planning and Construction	20.205	158,967	<u>158,580</u>
Total federal expenditures			<u>\$ 1,938,384</u>

City of Trenton

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Trenton and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Trenton

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program(s):

CFDA Number	Name of Federal Program or Cluster
66.818	Brownfield Revolving Loan Cleanup
66.818	Brownfield Revolving Loan Assessment
16.unknown	U.S. Immigration and Customs Enforcement

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of Trenton

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

City of Trenton, Michigan

Report to the Mayor and City Council
Fiscal Year Ended June 30, 2008



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To the Mayor and City Council
City of Trenton, Michigan

We have recently completed our audit of the basic financial statements of the City of Trenton, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following report on internal control, report on the results of the audit, other recommendations, and informational - legislative and other matters which financially impact the City of Trenton, Michigan. The following index summarizes the enclosed communications:

	<u>Page</u>
Report on Internal Control	1-2
Report on the Results of the Audit	3-6
Other Recommendations	7-9
Informational - Legislative and Other Matters	10-17

We are grateful for the opportunity to be of service to the City of Trenton, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

November 25, 2008



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Report on Internal Control

November 25, 2008

To the Mayor and City Council
City of Trenton, Michigan

Dear Mayor and Council Members:

Beginning with last year's audit, United States auditing standards require auditors to communicate matters to the City of Trenton, Michigan's (the "City") governing body that may be useful in its oversight of the City's financial management. Specifically, the standards require us to report to the governing body internal control issues (even those that may be relatively minor), in order to allow the governing body to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with City management in the past. One purpose of these new standards is to allow the governing body an opportunity to discuss issues even when they are relatively minor, rather than waiting until they become more serious problems.

In planning and performing our audit of the financial statements of the City of Trenton, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

To the Mayor and City Council
City of Trenton, Michigan

November 25, 2008

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weakness, as defined above.

This communication is intended solely for the information and use of management, the City Council, and management of the City of Trenton, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "D. Bohrer", written over a light gray rectangular background.

Douglas G. Bohrer

A handwritten signature in black ink, appearing to read "Will Brickey", written in a cursive style.

William E. Brickey

Results of the Audit

November 25, 2008

To the Mayor and City Council
City of Trenton, Michigan

We have audited the financial statements of the City of Trenton, Michigan (the "City") for the year ended June 30, 2008 and have issued our report thereon dated November 25, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 25, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Trenton, Michigan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the City of Trenton, Michigan's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the City of Trenton, Michigan's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated November 25, 2008 regarding our consideration of the City of Trenton, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the City of Trenton, Michigan, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 13, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Trenton, Michigan are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were unbilled water and sewer receivables and health claims incurred but not reported.

Management's estimates of unbilled water and sewer receivables and health claims incurred but not reported are based on historical and other financial data. We evaluated the key factors and assumptions used to develop the estimate of unbilled water and sewer receivables and health claims incurred but not reported in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 3 - deposits and investments, Note 5 - capital assets, Note 7 - long-term debt, Note 10 - postemployment benefits, and Note 12 - pension plans.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated November 25, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

To the Mayor and City Council
City of Trenton, Michigan

November 25, 2008

Other Information in Documents Containing Audited Financial Statements

In addition to the comments and recommendations in this letter, our observations and comments regarding the City of Trenton, Michigan's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards (single audit report), and we recommend that the matters we have noted there receive your careful consideration.

This information is intended solely for the use of the City Council and management of the City of Trenton, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in dark ink, appearing to read "D. Bohrer", written over a light gray rectangular background.

Douglas G. Bohrer

A handwritten signature in dark ink, appearing to read "Will Brickey", written over a light gray rectangular background.

William E. Brickey

Other Recommendations

City of Trenton, Michigan

Other Recommendations

Financial Results/Plans

The City's General Fund fund balance decreased in the current year from approximately \$8,735,000 at June 30, 2007 to \$6,853,000 at June 30, 2008. The primary reason for the decrease was a transfer of \$2,000,000 to the Retiree Health Care Trust Fund. Over the years, the City has been able to absorb periodic operating deficits because of the fund balance accumulated over time through budgetary foresight and proper planning. In the near term, the City of Trenton, Michigan continues to be in a position to withstand the very difficult financial climate that exists today. As you are well aware, however, the 2008-2009 fiscal year and beyond may be the most challenging this region has seen for some time. We strongly encourage the City to continue to closely monitor this year's budget as well as revenue forecasts for the 2009-2010 fiscal year. Maintaining an appropriate level of fund balances provides flexibility during this difficult economic climate.

Water and Sewer Rates

Despite increasing customer rates in the June 30, 2008 fiscal year, water and sewer operations did not charge an amount sufficient to cover operating costs, resulting in an operating loss of approximately \$1,515,000. We encourage the City to continue to review its current rate structure and make additional changes where necessary to align revenue with expected operating costs.

Capital Assets

It is our understanding that the City has not performed a physical inventory of its fixed assets in several years. We recommend that an inventory be taken periodically to ensure records are accurate and up to date. Since the City will be moving back into its regular location in the near future, we would suggest performing a City Hall asset inventory in conjunction with the move.

Internal Controls

During our procedures, we identified several areas where internal controls could be improved. While investment reconciliations are being performed accurately and timely, we noted no indication of preparer or reviewer sign-offs. We suggest that both the preparer and reviewer sign and date the reconciliation when their duties have been performed. A similar issue was identified with respect to journal entries; although the entries appear to be calculated and posted properly, there was no indication of a preparer or reviewer. Again, we would suggest that both preparer and reviewer sign and date the entry form when their duties have been performed. Lastly, we noticed no sign-off of a reviewer on employee timesheets. We suggest that the reviewer sign off on timesheets as authorization that timesheets are being prepared accurately.

Ice Rink

During our review of the ice rink cash receipt procedures, we noticed that minimal supporting information is sent to the treasurer's office for review. We strongly suggest that all deposit slips sent to the treasurer's office include cash register tapes, receipts, and other supporting documentation so that the deposit amount can be verified. It is also our understanding that the cashiers at the ice rink have access to a "no sale" key on the cash register which can be used to open the drawer at any time to make change. We suggest that a periodic review of the register tape is warranted to determine if the "no sale" button is being used excessively or for inappropriate reasons.

Currently, ice rink personnel bring cash receipts (deposits) to the City treasurer on a periodic basis. We suggest adopting a formal policy and practice of bringing deposits to the City treasurer on an established schedule. This process will help improve controls and mitigate risks that are inherent in remote location cash collections.

Informational

Revenue Sharing

The governor initially released her proposal of the State's fiscal year 2009 budget (for the year ending September 30, 2009) in February 2008. Over the course of budget deliberations in the spring and early summer, the legislature further debated the level of revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ended September 30, 2008) amounts, plus an increase of 2 percent in the statutory portion of revenue sharing received in fiscal year 2007. This proposal was presented to the governor on July 25, 2008 and is awaiting her signature.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	Percent Change
Cities, villages, and townships:				
Constitutional	\$ 665,980	\$ 682,780	\$ 675,992	-0.99%
Statutory	<u>404,920</u>	<u>392,050</u>	<u>406,933</u>	3.80%
Total to CVT's	1,070,900	1,074,830	1,082,925	0.75%
Counties (statutory)	<u>-</u>	<u>-</u>	<u>2,394</u>	N/A
Total revenue sharing	<u>\$ 1,070,900</u>	<u>\$ 1,074,830</u>	<u>\$ 1,085,319</u>	0.98%

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in fiscal year 2009 to equal the total of constitutional and statutory revenue sharing received in fiscal year 2008, plus an additional payment equal to 2 percent of the fiscal year 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for fiscal year 2009 will be identical to the amounts received in fiscal year 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

City of Trenton, Michigan

Informational (Continued)

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

The table below details state-shared revenue for the City of Trenton, Michigan since 2001 broken out by statutory and constitutional portions.

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001
2001	\$ 1,867,545	\$ 1,270,848	\$ 3,138,393	\$ -
2002	1,468,828	1,283,793	2,752,621	(385,772)
2003	1,243,590	1,305,528	2,549,118	(589,275)
2004	999,679	1,291,348	2,291,027	(847,366)
2005	943,891	1,322,164	2,266,055	(872,338)
2006	896,167	1,344,674	2,240,841	(897,552)
2007	857,375	1,316,734	2,174,109	(964,284)
2008	813,414	1,360,695	2,174,109	(964,284)
2009*	854,723	1,336,543	2,191,266	(947,127)

*Estimated

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$855,000 at risk in its General Fund budget based on estimated 2009 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and was the following percentage in the last five years:

2008	2.3%
2007	3.7%
2006	3.3%
2005	2.3%
2004	2.3%

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2008, the City's Headlee maximum property tax rate for its operating levy was 19.0260 mills (actual levy was 17.9654) even though City Charter would allow the City to levy 20 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated in several published studies and reports, due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop-up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation) will continue downward pressure on millage rates particularly given the gap that now exists between taxable value and state equalized value.

Property Tax Developments

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include the following:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).
- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441, and 4442). The lead bill of that package, House Bill 4440, establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.
- Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have re-learned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it reconnects with market values).

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value,” needs to be added to the Proposal A formula. In what some are calling a “super cap,” the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. To date, the legislation putting this proposal before voters has passed the Michigan House but has not been sent over to the Senate. A change of this nature would negatively impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the six mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.
- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e., such as street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements does not constitute a taxable addition.

Reminder - Change in Investment Act

Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates.

Other Legislative Items

- As part of Michigan's new "Planning Enabling Act," many local governments will now be required to prepare an annual "capital improvements program." This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community's judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. Townships that do not either individually or jointly own or operate a water supply or sewage disposal system are exempt from this requirement. In general, Plante & Moran strongly encourages the development of a capital plan. While the law is restricted to "public structures and improvements," we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishings, etc. In addition, we feel that the participation of the governing body (in addition to or instead of) the planning commission is good public policy.
- This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.
- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as "Public Act 20," which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan Legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate setting to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.

- At the federal level, a 2005 law change continues to get more attention as its effective date approaches. As part of the Tax Increase Prevention and Reconciliation Act of 2005, a new mandate was introduced which will require any governmental entity spending more than \$100 million a year in goods and services to withhold 3 percent of government payments beginning in 2011. Governmental units subject to this requirement will also be subject to new reporting rules for applicable payments. Numerous groups - both public and private sector, including the U.S. Department of Defense - have expressed concerns on the cost and practicality of implementing this new mandate. A bill is pending in Congress to delay implementation by a year until January 2012.